

THE
GEORGE WASHINGTON UNIVERSITY
NAVY GRADUATE COMPTROLLERSHIP PROGRAM

THE ROLE OF
MANAGEMENT CONSULTANTS
IN INDUSTRY
AND GOVERNMENT

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for
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May, 1956

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PREFACE

To be exposed to the dynamics of the changing methods and techniques of modern business is the pleasure. To compare the simple acts of the storekeeper in Abe Lincoln's time with the myriad problems of modern America's merchandising is to note the difference between one and infinity.

In the clamor to make government more efficient--to make it more like its commercial counterpart--we find many of the methods employed by top management held up for governmental emulation.

In order to better perceive the value or lack of value of a popular present day management technique, the subject of the Role of Management Consultants in Industry and Government will come under our scrutiny. Attention will be directed at its origin, present concept, extent of its use and general value.

The treatment afforded the subject in this paper will emphasize the business uses of management consultants. Less detailed attention will be paid the broader aspects of governmental applications in Chapters 7 and 8.

It is desired to take this opportunity to express grateful appreciation for the assistance of Mr. George Kerr of the United States Navy Management Office of the Executive Office of the Secretary of the Navy.

INTRODUCTION

The stage for our discussion can best be set by a paragraph from Daniel Seligman.¹

Big business has taken to its ample bosom the newest theories and techniques of management, and their practitioners have achieved an awesome reputation. They reshuffle vast organizations, unearth and remold executive clay, devise and order new incentives, lubricate the machinery of communications, endlessly repair all relations--human, public and industrial. We see them, flanked by young sober-sides out of the business schools.

Computers, analog and linear, assist their deliberations; so do the new scholastics of business, the consultants. The decisions of these new managers, even when they are perchance outrageously wrong, reflect a degree of sophistication unknown in the deliberations of their rude forefathers.

At the start let it be understood clearly that there is a definite field for management consultants in the business world. In addition there is a definite field for each type of specialized service which consultants provide. Without specialized knowledge few business enterprises would be able to operate efficiently or profitably. Few corporations have on their payrolls employees with all the varieties of specialized knowledge required to efficiently run that business. In the absence of such talents among both management and employee it is wise to employ outside specialists whether their specialty is in accounting, law, operations research, market research, science, engineering, public or human relations.

¹Daniel Seligman, "Middle-Sized Management", Fortune, May, 1955, p. 6.

DISCUSSION

The first law of thermodynamics states that the total energy of a system is constant.

Second law of thermodynamics.

The second law of thermodynamics states that the entropy of a system always increases over time. This is a statistical law, meaning that it only holds true for a large number of particles. For a small number of particles, the entropy can decrease. The second law of thermodynamics is a consequence of the first law of thermodynamics. It states that the total energy of a system is constant, but the energy can be converted from one form to another. For example, the energy of a system can be converted from heat to work. The second law of thermodynamics states that the entropy of a system always increases over time. This is a statistical law, meaning that it only holds true for a large number of particles. For a small number of particles, the entropy can decrease. The second law of thermodynamics is a consequence of the first law of thermodynamics. It states that the total energy of a system is constant, but the energy can be converted from one form to another. For example, the energy of a system can be converted from heat to work. The second law of thermodynamics states that the entropy of a system always increases over time. This is a statistical law, meaning that it only holds true for a large number of particles. For a small number of particles, the entropy can decrease. The second law of thermodynamics is a consequence of the first law of thermodynamics. It states that the total energy of a system is constant, but the energy can be converted from one form to another. For example, the energy of a system can be converted from heat to work.

At the same time, it is not necessary to state that the entropy of a system always increases over time.

Third law of thermodynamics states that the entropy of a system approaches a constant value as the temperature approaches absolute zero. This is a statistical law, meaning that it only holds true for a large number of particles. For a small number of particles, the entropy can increase. The third law of thermodynamics is a consequence of the first and second laws of thermodynamics. It states that the total energy of a system is constant, and the entropy of a system always increases over time. The third law of thermodynamics states that the entropy of a system approaches a constant value as the temperature approaches absolute zero. This is a statistical law, meaning that it only holds true for a large number of particles. For a small number of particles, the entropy can increase. The third law of thermodynamics is a consequence of the first and second laws of thermodynamics. It states that the total energy of a system is constant, and the entropy of a system always increases over time. The third law of thermodynamics states that the entropy of a system approaches a constant value as the temperature approaches absolute zero. This is a statistical law, meaning that it only holds true for a large number of particles. For a small number of particles, the entropy can increase. The third law of thermodynamics is a consequence of the first and second laws of thermodynamics. It states that the total energy of a system is constant, and the entropy of a system always increases over time.

CHAPTER I

THE HISTORY OF MANAGEMENT CONSULTANTS

Management consultants have a history tracing back to the year 1880.¹ In those early days they were known as "efficiency engineers" who specialized in time-and-motion studies. At the beginning and through its history efficiency engineering was dramatic and much in the public eye. Instead of this public attention resulting in success and public acceptance it strangely had the opposite effect.² It facilitated the operations of unscrupulous operators who found "Scientific Management" and "Efficiency" convenient passwords with which to gain the confidence of naive industrialists who were ripe for fleecing. And fleeced they were.

This early period of efficiency engineering lasted until World War II.³ Throughout the beginning years of this period leaders in the field, such as Frederick W. Taylor, were performing remarkable and successful work. Throughout this period gains in public acceptance were made even though their ranks were plagued by charlatans who used their huckstering ability to obtain engagements throughout the country--taking the fees of their sponsors and leaving in their wake a hodgepodge of drivel and a lasting distrust for the new science. Opposed to these fakes were Henry L. Gantt and other associates of Taylor who

¹Editors of The Controller, "In The Beginning", The Controller, November, 1954, p. 508.

²Ibid.

³Ibid.

were the reputable consultants of the day. They, along with Frank and Lillian Gilbreth, became leading exponents of the field after 1911.¹ Mr. Taylor died in 1915, a discouraged man, and his work for awhile tended to be forgotten.

As time went on efficiency engineers were succeeded by a new group which called itself "industrial engineers". Their activities were broadened to include more than time and motion studies, plant layout, control of materials and redesign of machinery and tools which had been the scope of management consulting up to that time. They delved beyond production problems into virtually all phases of general management, they included fields of personnel, finance, marketing, distribution and administration.

From this title "Management Engineer" came into use and from that the more recent title of "Management Consultant". This last covers any and every field previously covered by all the previous users. Their present fields of study encompass complete organizational studies of small, middle sized and giant corporations, appraisals of executive efficiency and compensation, search for new companies it might be desirable to acquire, conception of new products to produce and means to finance them. A far cry indeed from the simple efforts of Taylor.

¹Richard N. Owens, Management of Industrial Enterprises, (Homewood, Illinois, Richard D. Irwin, Inc., 1953), p. 25.

CHAPTER II

THE SCOPE OF OPERATIONS

"Unsolved solveable problems solved here".¹

This bon mot taken from the door of a management research- company is the guiding philosophy behind many consulting firms practicing in America today. Their work is the application of research techniques to all phases and levels of management. Broadly their activities may be divided into three major integral activities namely, administrative, executive and staff research.² These types of management research are based upon the nature of overall activity being investigated and are conducted usually by one centralized research organization rather than several small units.

Administrative research investigates problems usual to the corporate form of management; such problems and activities of interest to the Board of Directors, its committees and its President. Such problems pertain to the business as a whole in its relations with stockholders and the public in general.

Mr. Glover feels that "Executive Research" explores internal operational problems arising in the everyday conduct of the business. These problems may originate in all departments of a typical organization.

The third type of management research operations concerns "Staff

¹John G. Glover, Business Operational Research and Reports (New York, American Book Company, 1949), p. 35.

²Ibid., pp. 35-36.

Research". This encompasses acquisition of knowledge in specific fields such as auditing, law and statistics.

How much money a consultant makes is a question asked by many of the prospective employers of Management Consultants. A look at the table below may serve to answer that query.

Management Consultants are very closemouthed about their financial operations, and as a result many clients have been suspicious of their fees. That the fees may in fact be closely related to a consultant's actual costs is revealed by the figures below, which were supplied by the firm of John L. Schwab Associates of Bridgeport, Connecticut. Schwab thinks that businessmen ought to know how consultants run their business. Typical of many consulting firms, his firm, originally concentrated on improving plant operations, now deals with many top-management problems. The distribution of Schwab's labor costs and overhead, and his profit margin, are probably comparable to that in many other firms. Schwab's crew of nineteen consultants are billed to clients at \$130 a day, while Schwab charges \$250 a day for his own services. Last year the firm billed seventy-seven clients a total of \$225,000, which breaks down like this:

Consultant's salaries (20 men)	\$110,250	49.0%
Office salaries	20,475	9.1
Bonuses (distributed quarterly)	9,000	4.0
Travel and entertainment	14,625	6.5
Rent and maintenance	5,625	2.5
Training material, textbooks, etc.	8,550	3.8
Insurance for employees	4,500	2.0
Depreciation on equipment	2,475	1.1
Taxes, payroll and general	2,700	1.2
Income taxes	20,475	9.1
Net profit (reserved for contingencies). . .	<u>26,325</u>	<u>11.7</u>
	\$225,000	100.0% ¹

The magnitude of the business of management consulting can be best realized from the fact that in 1954 the fees for professional services rendered

¹Editors of Fortune "How Much Money Does a Consultant Make?", Fortune, May, 1954, p. 188.

was over four hundred million dollars.¹

In a recent survey conducted by the Association of Management Engineers, Inc. among 1753 consulting firms it was learned that the typical firm had a total of six or seven employees and a gross income of about \$60,000 annually.² Only 60 of those included in the survey reported a gross income of over a million dollars annually. The survey indicated that a substantial proportion of the consultants reported that they offered services in all seven of the specialized classes of management such as marketing, manufacturing and finance. In view of the fact that the typical consulting firm employs only six or seven consultants, the businessman might legitimately wonder whether consultants do not claim too much ability for themselves--more in fact than they are able to provide.

In the United States in 1952 there were approximately eight thousand individuals operating as consultants offering management advice on new business methods.³ According to Lyle Spencer, by 1955 the ranks of the consultants had swelled greatly. He said, "there are now over 1,700 consulting firms in this country, employing some 44,000 people, and grossing \$400 million per year".⁴

As to how this \$400 million is achieved let us begin by looking at the

¹Perrin Stryker, "The Ambitious Consultants" Fortune, May 1954, p. 84.

²Editors of the Controller, "Census of Management Consultants" The Controller, November 1954, p. 509.

³Perrin Stryker, A Guide to Modern Management Methods, (New York: McGraw-Hill Book Co., 1954), p. 129.

⁴Lyle Spencer, "Ten Problems That Worry Presidents" Harvard Business Review, November-December 1955, p. 79.

size of the individual consultant's fees.¹ For one man's services these fees range from \$75 per day up to the staggering amount of \$500 per day. The most common figure is \$150 daily for a junior staff consultant. (To an executive himself earning only \$100 daily or \$30,000 per year, the fees of a senior partner of a big consulting firm may appear extraordinary, especially when they amount to between \$250 and \$350 per day.)

A specific analysis was recently conducted by the Association of Consulting Management Engineers. It was limited to cities of over 100,000 population. This survey indicated that there were 1,915 operating consulting firms in America. Of these, 39% were specialists who offered only one kind of technique or service while 61% were true "Management Consultants" which met the Association's own definition of a "Management Consultant", i.e., offered two or more services.² The latter group collected 311 million in annual fees while the specialists charged their clients 115 million for their work. A valuable comparison of the lucrative nature of the consulting function can be derived from a comparison of the fees grossed by the legal profession for the same period. Although the legal profession is over one hundred times the size of the consulting profession, their remuneration was only 3½ times greater.

The survey further shows that there were ten "specialists" and fifty-six "consultants" who billed their clients more than one million annually. The largest income reported was that of the George S. May Company which grossed

¹Stryker, "The Ambitious Consultants", op. cit., p. 83.

²Ibid., p. 84.

Increased competition from industrial giants has made the problems of today for small and middle sized business cry for an answer if the weaker of the two is to remain in being. This trend toward the bigness exemplified by such corporate greats as General Motors and Ford have put the squeeze on the "little fellow".

A good case in point is the Packard Motor Company. In the not too distant past it made the premier car of America. Unable to change with the times it was recently forced into a "do or die" merger with another staid motor performer, the Studebaker Motor Corporation. Use of properly qualified management consultants undoubtedly would have highlighted the trends and changes in their particular situations long before the point of desperation was reached.

The extent of the competition for public acceptance can also be judged from the rise in advertising expenditures. In the last ten years advertising expenditures rose from less than three billion dollars annually to an estimated eight and one-half billion dollars in 1955.¹ Large scale research in selling and advertising has now become an integral and vital part of our industrial economy. Mr. Bogart, in the most recent article on the subject feels that "Research in turn seems to generate a need for more research".²

Few organizations are adequately staffed to solve the myriad problems with which they are faced from within their own organization. They must turn

¹Leo Bogart, "How to Get More Out of Marketing Research", Harvard Business Review, January-February, 1956, p. 74.

²Ibid.,

\$7,400,000 last year.¹

The ten largest firms presently operating in the nation are as follows: (They are not listed in any order of priority, however, as consulting firms are understandably reticent about the extent of their business.)

George S. May Company	Chicago
Booz, Allen and Hamilton	Chicago
Ebasco Services, Inc.	New York
Production Management Engineering Associates, Inc.	San Francisco
McKinsey & Co.	New York
A. T. Kearney & Co.	Chicago
Robert Heller & Associates, Inc.	Cleveland
Cresap, McCormick & Paget	New York
Albert Raymond & Associates, Inc.	Chicago
Stevenson, Jordan & Harrison, Inc.	New York

The activities of management consultants are far ranging, as to the types of activities, and vary greatly even within a specific field. For example, the psychological consulting firm of Rohrer, Hibler and Replogle who provide nationwide services to management, recently completed a broad study about the problem of presidential succession and its solution. The study ranged from spontaneous talks and sporadic conversations with a specific client executive perhaps a half dozen times to as many as 72 monthly conferences spread over a six year period with another client. A minimum of 3000 man hours was spent by the corporate presidents in attempting to define and clarify their own thinking of what is good in a president and how to choose one properly. Their sum total of conclusions is included in a report made by Mr. Janney.²

¹Ibid., p. 85.

²J. Elliot Janney, "Company Presidents Look at Their Successors", Harvard Business Review, September-October 1954, p. 63.

A most comprehensive and somewhat unusual survey was recently completed by the American Institute of Management, a non-profit organization formed to evaluate the efficiency of business corporations. In this case the subject of the analysis was not a business, but the world-wide Roman Catholic Church.¹ In December, 1948, with the acquiescence of the Vatican, non-catholic Jackson Martindell completed his audience with Pope Pius XII and went to work. For a full year, 200 researchers worked away in Rome, swarming through the Vatican's archives and offices, codifying, correlating and questioning. They were aided by hundreds of other researchers working in 30 languages throughout the world. In a 26-page report, they graded a variety of items. The scope was of considerable magnitude--such items as social function, organization structure, growth of facilities, membership, development program, fiscal policies, trustee analysis, operating efficiency and effectiveness of leadership were summarized in its "Recommendations to the Vatican". Based on its observations, the Institute of Management then made recommendations to American Management of lessons it could learn from the Church.

A further idea of the breadth of operations of consultants and the types of investigations they perform can be derived from the following summary of some recent operations.

<u>Client</u>	<u>Assignment for the Consultants</u>
Dupont Corporation	Reorganizing a warehouse
Dupont Corporation	Collecting data for anti-trust proceedings
New York Central Railroad	Complete reorganization
Sangamo Electric Company	Time and motion studies

¹Editors of Time, "Holy Church Evaluated", Time, January 30, 1956, pp. 39-40.

Vornado Fan Company	Market research
Republic Aviation	Sixteen separate assignments in nine years
Roehr Products, Inc.	Quality control, work measurement, cost accounting, job evaluation and metal finishing techniques
Air Reduction Company	Production techniques and job eval- uation
National Cash Register Co.	Psychological personnel testing
Columbia Broadcasting Co.	Records control research

There are, of course, many more types of surveys, as many in fact, as there are business problems. Such items as consumer preferences, motivation analysis, sampling surveys, executive development, executive compensation, retirement policies, company relocation, financing opportunities, industrial relations, costing techniques, sales and organization planning, budgeting, personnel and labor relations, office management and operations research are all subjects suitable for investigation.¹ Suffice it to say therefore, that the scope of management consulting is as broad as the very horizons and limited usually not by the knowledge of the consultant but by his sales technique in convincing clients of his skill and probable results.

¹Richard N. Owens, Management (Homewood, Illinois: Richard D. Irwin, Inc. 1953), p. 25.

There are, of course, many more things to say, but as
these are the main points, they have been chosen, and
the rest, being of minor importance, has been
omitted. The first point is that the
economy is not a static system, but a dynamic one,
and it is this which makes it so difficult to
study. The second point is that the economy is
not a closed system, but an open one, and it is
this which makes it so difficult to study. The
third point is that the economy is not a simple
system, but a complex one, and it is this which
makes it so difficult to study. The fourth point
is that the economy is not a homogeneous system,
but a heterogeneous one, and it is this which
makes it so difficult to study. The fifth point
is that the economy is not a uniform system,
but a non-uniform one, and it is this which
makes it so difficult to study. The sixth point
is that the economy is not a stable system,
but an unstable one, and it is this which
makes it so difficult to study. The seventh point
is that the economy is not a predictable system,
but an unpredictable one, and it is this which
makes it so difficult to study. The eighth point
is that the economy is not a controllable system,
but an uncontrollable one, and it is this which
makes it so difficult to study. The ninth point
is that the economy is not a manageable system,
but an unmanageable one, and it is this which
makes it so difficult to study. The tenth point
is that the economy is not a governable system,
but an ungovernable one, and it is this which
makes it so difficult to study.

CHAPTER III

WHY USE A MANAGEMENT CONSULTANT?

One reason for the employment of consultants is that the staff of the business concerned is not large enough or sufficiently equipped to develop plans or programs to meet the needs of the business. If the problem is one which occurs rarely, normally management would not feel justified in creating a permanent staff billet to handle it.

Another reason for using outside consultants may be that the training program has lagged and no one in the internal organization is qualified or capable of solving the problem, or the chief executive of a corporation may want the support of a consultant to strengthen his own position in making recommendations to the Board of Directors. "If the situation seems to require a decision that will not be pleasing to subordinates, the chief executive may need the authority that would be associated with an opinion from a consultant".¹

Another major reason for employment of consultants is the very dynamic nature of our economy. The recent rise of supermarkets and discount houses has highlighted a profound change in retailing methods. The movement of the city dweller to the suburbs has created relocation problems for many businesses. The effect of millions of cars and excellent highways, coupled with the lack of parking facilities in cities, have all created business problems foreign to yesterday's businessman.

¹Richard N. Owens, Introduction to Business Policy (Homewood, Illinois; Richard D. Irwin, Inc. 1954), p. 255.

THE STATE OF NEW YORK

The State of New York is a large and fertile country, and is one of the most important of the Empire. It is a country of great natural beauty, and is one of the most fertile of the Empire. It is a country of great natural beauty, and is one of the most fertile of the Empire. It is a country of great natural beauty, and is one of the most fertile of the Empire.

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THE STATE OF NEW YORK

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to outside sources for aid.

Another compelling reason for seeking outside help is the broad problem of "paper work". The governmental requirements of modern America are such that voluminous records and reports are required on everything from contract negotiation to dollar profits; from taxes to employee benefits derived from the various social plans in effect. When scientific controls for paper work are lacking (as they are in most companies) an average of 65 cents of every dollar spent to house records is money down the drain.¹ In addition, it is felt that by speeding up clerical operations to a fantastic degree, new developments in electronic equipment are threatening to inundate business under an even greater avalanche of paper.

How can the average executive cope with this? The use of Management Consultants such as the National Records Management Council seem to be the answer. This group has been doing research, testing ideas, and validating conclusions relative to reduction of paper work. A fairly typical answer to the "Why use management consultants"? question is this:

Only 12 weeks after the Columbia Broadcasting System put a controlled record-keeping program in operation, its savings totalled \$41,000. The 33 million pieces of paper previously crammed into its offices and files had been almost cut in half; 40 tons of paper had been carted away and sold as waste.²

In addition to acquiring the specialized skills not available within the company's own organization the use of outside consultants has other advan-

¹Robert A. Shiff and Arthur Barcan, "The New Science of Records Management", The Management Review, February 1955, p. 88.

²Ibid.

tages. One is the cross-fertilization of the best methods and ideas developed in each industry. Another is the freedom from the "identification" which sometimes causes a corporation executive to be prejudiced in favor of an inferior idea or method of long standing (especially if he had a part in its inception in the distant past).

Considerable opinion as to "why use a management consultant"? is evidenced in the works of many authors writing on management problems. We shall sum up the concept therefrom in the words of a sample group. Mr. Glover says, "because modern industry is founded on scientific research, management must seize every opportunity to apply its technique to the everyday problems of business".¹

Another feels:

The consultant can often render valuable services to management because of his detached position. He can look at problems from the point of view of the company as a whole rather than a single department of the company. He has the time to study management problems because he is not subject to the pressure of routine duties and responsibilities. In many cases, he can obtain more information about the attitudes and opinions of employees and persons in the management than would be available to a member of the company. His work with many companies equips him with a varied experience and assists him in advising with managements. For these reasons, consultants have assisted in improving management methods and techniques.²

Peterson and Plowman in their discussion of the executive level of management state that, if hired, the consultant acquires in an almost perfect manner the position and relationship of a staff executive in an organization.

¹ John G. Glover, Business Operational Research and Reports (New York: The American Book Company, 1949), p. 36.

² Owens, Management, op. cit., p. 26.

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Further:

Since he is not a full-time executive himself, there need be no fear of his usurping authority of other executives. He does not have the prejudicial self-interest of a salesman, or of an inventor, who might volunteer his services without fee. If he is a reputable consultant, he is bound by ethical considerations to serve his client well and faithfully. His experience facilitates his investigations, and his reputation increases the ease with which his recommendations are accepted by operating executives. Regardless of the method, or lack of method, used to provide staff services, they serve a useful purpose in the management of a business. The increasing technical complexities of business require staff investigations and recommendations, even in small concerns.¹

¹Elmore Peterson and E. Grosvenor Plowman, Business Organization and Management, (Chicago: Richard D. Irwin, Inc., 1949), pp. 142-143.

CHAPTER IV

THE FAILURES OF MANAGEMENT CONSULTANTS

Although in the last chapter we noted the comments of Peterson and Plowman that the management consultant does not have the "prejudicial self interest" attributed to some others we find a large segment of management opinion which will take exception to his views. In a flagrant case reported by Marshall Granger we note the following:

In another recent case, also not publicized by either party but known and talked about by many, the president of a well known company had a close friend with a management consultant firm. Through this friend he engaged the firm to make a survey of his organization, its policies and personnel. Within a few months one astonishing result was consummated--the president had lost his job and his friend had it--and the circumstances indicated political trickery not merit.¹

In 1951 the Controllershship Foundation published a report on a research project involving the experience of 61 corporations with management consultants. "A surprisingly large number of unsatisfactory experiences was disclosed".²

The reasons for these failures can be traced back to the organization of the consulting firm. It is a truism that if the selling department of a consulting firm is weak that firm perishes from lack of clients. In some firms this leads to a concentration of top grade talent in this department and a scarcity of skills in most other echelons.

¹ Marshall Granger, "Concerning Management Consultants", The Controller, November 1954, p. 507.

² Ibid.

There are three common faults of consultants which are held up to criticism. They stem from the lack of professional standards or status on the part of consultants. There are no restraints or restrictions on their operations save those of the "market place". If they can continue to acquire clients they flourish. Unlike Certified Public Accounts, lawyers or doctors, there are no minimum educational requirements or no codes or rules for the consultant, violation of which would result in his disbarment or loss of certificate. This situation has obviously left the door still open to the charlatans and swindlers of Taylor's day.

The three faults most often criticized and traceable to this lack of professional status are (1) "overselling", wherein the firm's best talents are in the sales department. (2) "overreaching", wherein the management consultant spreads his activities into fields in which he is not expert or well qualified, and (3) "overcharging", which results in sending in task forces where one man could do the work and in keeping these forces on the job longer than necessary.¹

One solution to all of these problems seems to be the establishment of regulatory professional standards either by government or an association with sufficient powers of enforcement.

The plum would not be ripe for plucking, however, were it not for the default of management itself. Many times corporate executives have failed to do the work which they should have done themselves. Many times do they have personnel on their own payrolls who could solve the problem but their default

¹Ibid., p. 508.

There are three points which in connection with the case of the
will (1891). They are: (1) the fact of the will being made at a time when
the testator was in a state of mind to make it; (2) the fact of the will being
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made at a time when the testator was in a state of mind to make it.

is due to their own unwise approach to the task of managing. Responsible executives who should have taken a situation in hand and corrected weak spots or effected new improvements instead have "passed the buck" and called upon outside consultants.

One officer of an unidentified large corporation, having had reasonable success with consultants from the mid-thirties, had a disillusioning experience to report as a result of hiring a management consultant to survey the company's operations and make recommended improvements. He made three serious charges against the firm which is generally considered to be the leader in its field:¹

(1) Insincerity. Three years after starting the assignment the consultants still refused to recommend the removal of family influence in the company, which was the basic problem known to all members of management and quickly discovered by the consultants.

(2) Ineptness. Almost all the specialists on the consultant's staff seemed qualified to help the company's specialists, and practically all their recommendations proved unworkable.

(3) Fee minded and inordinately expensive. Partners of the consulting firm maintained constant pressure to enlarge the job which in two and a half years cost \$600,000.

Another case of poor advice was bought from the consulting firm of Booz, Allen and Hamilton, one of the top ten most successful companies in the trade. (Success in this instance referring, of course, to the size of their annual billings). In this instance, O. A. Sutton, a wartime aircraft welding sub-contractor, asked this firm whether or not he should go into the circulating fan business. He was given eight specific reasons why he should NOT go

¹Perrin Stryker, "The Ambitious Consultants", op.cit., p. 85.

into that business. Disregarding the consultant's report and entering this field has resulted in a volume of \$24 million in fans and air conditioners being produced and sold by Sutton under the trade name of Vornado.

Booz and Allen will make no comment on specific jobs, but senior partner, James Allen, estimates that out of three hundred jobs the firm did in 1953 a dozen were badly done.¹

Many reasons have been advanced for the cause of the failures found in some consulting reports. These are some of the commonest pitfalls of research and apply equally well to the broader aspects of consulting.² The fuzzy survey which lacks a clear objective, (is thus vague in its planning and uncertain in its findings). Another is the survey which tries to cover too much ground—the third the pilot study which becomes gospel. In the latter an inadequate sample may be used to evolve sweeping conclusions. The final cause of failure is the survey which transposes situations. Merely because an approach worked in a similar situation is no guarantee that it will prove effective in a different situation.

Another author adds to the above reasons for failures.³ Leo Bogart says that often times existing information resources are not often fully utilized; the analysis and collection of necessary but humdrum statistics is sometimes neglected; and too much time is consumed in the conduct of the survey.

¹Ibid.

²Grey Advertising Agency, "Where Market Research Goes Astray", The Management Review, May, 1955, pp. 315-316.

³Bogart, op. cit., p. 75.

Another recorded failure was experienced by President William Dolle of Cincinatti's Lodge and Shipley Company. In search for a psychological testing company, he checked briefly with other Cincinatti companies and hired a consultant who had been calling on him for over five years. He soon concluded that the consultant's program "didn't fit our needs".¹

Another case is that of President F. H. Bucholz of the Omaha Steel Works. In attempting to reorganize the management of what had been a one man company, he secured the names of four consultants, three from New York and one from Chicago. After two years they all submitted reports. In the words of President Bucholz, "they didn't sell me on the idea that what they would do would be worth the chips, and they weren't willing to move at our pace".² Soon after this, however, this story of failure turned to one of success when a one-man firm named J. Geddes Stanway followed the "desired pace" and came up with a fifty page report which became Omaha Steel's Management Bible.

To aid the American business man get his money's worth, the Association of Consulting Management Engineers has evolved these recommended questions that all who contemplate employment of management consultants should have definitely and satisfactorily answered before they go so far as to let a consulting contract.³

¹Perrin Stryker, A Guide to Modern Management Methods, op. cit., p. 135.

²Ibid., p. 136.

³Association of Consulting Management Engineers "Tips on Picking a Management Consultant", The Management Review, December, 1954, p. 806.

1. How long has the firm been in business?
2. What is the background of the principles?
3. What is the firm's financial status?
4. What kind of companies and industries has it served?
5. What do clients say about its work?
6. How much of its business is "repeat" business?
7. How well do its personnel get along with people?
8. How much time will principles spend on this particular assignment?
9. What man or men will supervise and carry responsibility for actual performance?
10. Has the firm had experience applicable to the problem at hand?
11. Does the firm ask for a clear definition of its assignment?
12. Does it make what seems a reasonable estimate of cost and time requirements?

In addition, they recommend checking with Chambers of Commerce, the Better Business Bureau, Dun and Bradstreet, credit associations and the editors of trade and business magazines in the company's own field of activity. They feel that legal and public relations counsels, accountants and advertising agencies will also not risk their own reputation for integrity in falsely endorsing inept consultants. Banks, too, can give an objective evaluation of past performance while those who have actually used the consultant's services in the past will certainly give a first hand subjective report.

We have seen in the quoted examples of this chapter that management doesn't always receive that for which it pays in its dealings with management consultants. The following chapter will cover some of those cases on record in which management does get its money's worth.

CHAPTER V

THE SUCCESSES OF MANAGEMENT CONSULTANTS

Most consultants claim that well over 90 percent of their work satisfies their clients. Some tangible evidence to support their claims can be seen in the following examples.

The first, involving the management firm of Cresap, McCormick and Paget resulted in an annual saving to its client, the New York Central Railroad, of over \$600,000.00 annually.¹ When hired the firm did not know much about railroading, but were put through a quick course in the subject by Central's president. After discussion with 428 other Central railroad executives, the Cresap consultants discovered that there were no provisions for staff work, no interdepartmental coordination, no system of delegation and poor personnel records throughout the entire organization.

Another success was registered by the firm of Serge A. Birn of Louisville, Kentucky.²

In working for their client, the Sangamo Electric Company, they were able to increase production 28 percent, cut costs 20 percent and save the client \$150,000.00 a year--a first year return of \$174 for every \$100 invested.

¹Herrymon Maurer, "The Central Rolls Again", Fortune, May 1954, pp. 90-91.

²Perrin Stryker, "The Ambitious Consultants", op. cit., p. 85.

Pan American World Airways' Comptroller, J. S. Woodbridge, estimated that the consulting firm of Ernst & Ernst, which charged three quarters of a million dollars in fees for ten major and a few minor jobs, has saved his company several million dollars.¹

One of the more interesting surveys of recent consultant operations was carried out by the firm of McKinsey and Company. Impossible of measurement in terms of money saved it can only be estimated in terms of power. This refers to the analyzing job of key federal posts before the 1952 election for ex-Air Force Secretary, Harold E. Talbott.² This report spotted the 250 top policy-making jobs in the federal government through which the Republicans could control the Administration. It also provided separate reports on the various working problems in these key posts. These reports were so thorough as to be ultimately adopted as ready-made job manuals by duly appointed cabinet officers and others.

The list of the corporations, both large and small, who have successfully employed marketing consultants reads like a "who's who" of American industry. The Higgins industry needed considerable help upon the death of its "one-man management". Booz, Allen & Hamilton stepped in here and instituted an important Foreman Training Program as well as the rudiments of an executive development program which have proved highly successful and satisfactory.³

¹Ibid., p. 85.

²Ibid.

³Daniel Seligman, op. cit., pp. 98-99.

The American Safety Razor Company is another company satisfied with consultants. It found itself with an aging management who were falling behind the times.¹ They employed McKinsey & Company, asked them for a complete reorganization and got it. Now they operate complete with executive committees, finance committees, working organization charts and even pre-testing of prospective executives by psychological means.

Part of the increase in successful operations and reduction in criticisms and failures can be laid to the efforts of the Association of Consulting Management Engineers.² They are a group of forty-two, well established firms which have been trying since the early thirties to raise the status and ethics of all management consultants. They have recently been making progress in that they are getting their members to finally agree officially to a uniform code of ethics and a list of recommended business practices. They are, in the words of the association, "merely prescriptions for men who like to sleep peacefully".³ The ten point code covers such broad items as maintaining objectivity, showing consideration and discretion toward clients, charging "reasonable fees" and giving proper credit to competitors.

In addition, the Association of Management Engineers has come up with a list of fifteen recommended practices for industry-wide observance. It includes the avoidance of such matters as undignified publicity, suits against

¹Ibid.

²Perrin Stryker, "The Ambitious Consultants", op. cit., p. 84.

³Ibid.

clients (unless they are, of course, fraudently withholding a just fee), direct solicitation of business from clients of other association members, elimination of the annoying and prevelant habit of hiring away good client personnel in less than a year after completing a job, and finally, not disparaging the work of other consultants.

The only trouble now with these prescriptions is that the organization still has "several bad boys in our own membership". (a bad boy is one who attempts to snare another's clients by either disparaging his work or directly soliciting the client).¹

In spite of their efforts, however, management consultants have no recognized standards of training, do not qualify for a license to practice and have no professional society that can enforce standards of disbarment. One of these days enforced standards of performance may come into being because "once bitten, twice shy" is an adage which certainly applies here. In times of large and rapid tax write-offs, industry can afford to take an expensive chance with consultants who may prove sour. When the competitive pinch of less prosperous business times assails them in one of the cycles of our economy, extremely close scrutiny to the amount of return derived from the monies expended on consultants may be expected. Then, and probably only then, will the consultants be forced to weed out their own "bad boys".

¹Ibid.

CHAPTER VI

MILITARY POLICY ON THE USE OF MANAGEMENT CONSULTANTS

Prior to 27 August 1954 the Department of Defense required centralized control of all management surveys and studies performed under contract whether done for the Office of the Secretary of Defense or for any of the three Military Departments.¹ In addition it required approval in the Office of the Secretary, by the Defense Management Staff, of all management surveys or studies of joint service interest.

On 27 August 1954 an elaboration of original policy was made which clarified and broadened the previous ground rules.² Instead of a centralized authority within the Defense Department its provisions were to put the authority for approving contracts back with the individual service concerned. This instruction required each service to establish a centralized authority for approving management contracts relating to that service. In addition, each service was required to maintain a central inventory record of management surveys and studies and, where inter-service interests are involved, to consult with the proper Defense Department agencies prior to letting a management engineering contract.

¹United States, Department of Defense Instruction number 5010.3 of 8 August 1952, Subject: "Management Surveys and Studies Performed Under Contract", p. 1.

²United States, Department of Defense Instruction number 5010.3 of 27 August 1954, Subject: "Management Surveys and Studies Performed Under Contract", p. 1.

CHAPTER

THEORY OF THE STATE

THEORY OF THE STATE is a branch of political science which deals with the nature, origin, and development of the state. It is a science which seeks to explain the political life of a community and to determine the principles which should govern its conduct. The theory of the state is a branch of political science which deals with the nature, origin, and development of the state. It is a science which seeks to explain the political life of a community and to determine the principles which should govern its conduct.

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To implement the requirements of the Defense letter the Secretary of the Navy issued instructions to the Director, Navy Management Staff to take the required action,¹ and to issue such supplementary directives as were needed.

Current Navy policy has just recently been reaffirmed in a letter promulgated on 30 January 1956 and signed by Thomas S. Gates, Jr., Under Secretary of the Navy.² In the words of the document, "Management Engineering services includes any examination, survey, study, review, analysis, or consultation having as its purpose improvements in the effectiveness, efficiency and economy of the Department of the Navy or any of its parts".³ In substance the current instruction allows the employment of outside consultants when requirements for their services exceed the capabilities of available internal resources. When used, those responsible for implementing the work of the consultant are charged with seeing that appropriate Naval representatives work right along with the consultants during the life of any contract made in order to properly absorb the intent and feeling of the ultimate recommendations.

Through this directive the Chief of Naval Operations, Commandant of the Marine Corps or Bureau or Office Chief must obtain approval of the Undersecre-

¹United States, Navy Department, Secretary of the Navy Instruction 5040.2 of 1 September 1954, Subject: "Management Surveys and Studies Performed Under Contract", p. 1.

²United States, Navy Department, Secretary of the Navy Instruction 5040.1A of 30 January 1956, Subject: "Management Engineering Services Procured Under Contract", p. 3.

³Ibid., p. 1.

tary of the Navy before any contracts or extensions to contracts are authorized.¹ This is true even though each Bureau, when employing consultants, uses funds previously granted to it for its use.

As a basis for contract authorization the following form of request must be submitted before any firm of consultants can be employed. Complete answers to each of the questions must be provided:²

- (1) Nature and scope of the problem and results expected.
- (2) Extent to which Navy management has undertaken to solve the problem and reasons why the procurement of outside services is considered necessary. Include where applicable copies of references to staff studies, summaries and papers bearing on the problem.
- (3) Probable applicability to other parts of the Navy or Department of Defense.
- (4) Explanation of the relationship between the proposal and any related contracts or projects completed or in progress within their area of management.
- (5) Name of the firms, institutions or persons under consideration.
 - (a) If tentative selection has been made, how was it made, and why?
 - (b) If selection has not been made, is it proposed to be made?
- (6) Estimated cost and time required.
- (7) Name of the representative who will be assigned as project manager to work with the consultant.
- (8) Any additional data which will lend support to the requirements for the contract.

¹Interview with LCdr. W. M. Harrison USN, United States Navy Management Office, 4 February 1956.

²United States, Navy Department, Secretary of the Navy Instruction number 5040.1A, op. cit., pp. 2-3.

These requirements are carefully designed to eliminate any ill-conceived, spontaneous requests for outside aid before all internal methods have been exhausted. One of the failures of consultants in government as well as in outside industry is, as we noted in an earlier chapter, due to improper development of objectives. Sufficient thought and analysis is required in developing answers to the above eight questions to eliminate most of that hazard.

Specific responsibility for execution of the consultant program has also been assigned the Navy Management Office by this very inclusive directive. The Director of this office is charged with:¹

- (1) Rendering appropriate assistance in arrangements for management engineering services to be procured under contracts.
- (2) Reviewing proposals to contract for management engineering services to determine that the terms of the proposals are suitable and adequate for satisfactory solution of the problem.
- (3) Coordinating contract proposals with needs for resolving similar problems elsewhere in the Department of the Navy and disseminating as appropriate information concerning improvements realized from the use of consultants.
- (4) Recommending action on such proposals to the Undersecretary of the Navy.
- (5) Maintaining a central record of information on management engineering service contracts and contract proposals.
- (6) Reviewing progress of work and follow-up on the implementation in order to be appraised of the results achieved.

In addition, the Director of the Navy Management section must prepare

¹ Ibid.

These requirements are essential to the success of the project.

During the past several months, the project has been successful in obtaining the necessary funds and in securing the necessary personnel. The project has also been successful in obtaining the necessary equipment and in securing the necessary facilities. The project has also been successful in obtaining the necessary permits and in securing the necessary insurance.

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quarterly summaries of progress for secretarial review.¹

One of the frequently encountered problems in the maze of government is duplication. The vastness of single departments such as the military is so great that it is usual for two or more persons or groups to be wrestling with the same or similar problems at the same time; or for one group to be bogged down with a problem which was successfully solved by another group in the past. So it is with the use of Management Consultants. Frequently an extremely valuable consulting report of broad applicability will gather dust after it has served a limited purpose. To "dust off the dust" and to prevent its accumulation is the design of the coordination by the Navy Management Office. To further aid them, this office requires for review copies of all contracts let, the estimated completion dates, information concerning the progress of the contract as it moves toward completion, a copy of the consultant's report when completed, and in addition, information concerning the action taken on the basis of the report.² It would prove extremely embarrassing to any group who, after the trouble and expense of acquisition of a Management Survey, decided the inertia of government was too much and decided to file the report away without appropriate and profitable action being instituted.

To further assure value received the Navy Management Office REQUIRES AN EVALUATION OF THE ACHIEVEMENTS THAT HAVE BEEN REALIZED AS A RESULT OF USING THE MANAGEMENT CONSULTANT TO BE EXPRESSED IN TANGIBLE TERMS. This to be done

¹Interview with LCdr. Harrison, op. cit.

²Ibid.

within three months after completion of the contract.

The only improvement open to conjecture which is apparent is that this provision should be restated--to require evaluation of achievement again a year from the date of original contract completion. In fact to ensure continuity annual review for a period of three years would not be undesirable. It would help assure continuous attention to the improvements originally installed and eliminate the fault of backsliding so common to us all.

The Department of the Air Force states its objectives, relative to the use of Management Consultants, as "to develop within the Air Force the capacity to solve management problems promptly, efficiently, and with a minimum of expense".¹ They require basically the same elements as does the Navy. Their approving agency is the Director of Manpower and Organization, Headquarters USAF, Washington.² In addition, regulations require the requesting and reviewing commands in the Air Force chain of military command to certify that

(a) Existing facilities of their respective commands are inadequate to accomplish the services called for, and

(b) The proposed contract would be advantageous to the national defense.

The Department of the Army has a slightly different approach to the use of Management Engineering Consultants than either the Navy or the Air Force.³

¹United States, Department of the Air Force, Air Force Regulation number 25-3 of 22 June 1953, p. 1.

²United States, Department of the Air Force, Change to Air Force Regulation number 25-3A of 26 October 1954, p. 1.

³United States, Department of the Army Regulation number 1-110 of 4 February 1955, Subject: "Contracts for Management Engineering in the Army Establishment", p. 1.

With them the Comptroller of the Army is charged with the responsibility for providing general guidance for the preparation, use and evaluation of contracts; is directed to review all contracts in order to determine the suitability of the terms; and further is told to avoid duplication; to ensure coordination and wide dissemination; to maintain central records and evaluation reports on completed contracts and finally to recommend to the Secretary of the Army action on proposals made. The channel recommendation for this is from the Comptroller to the Chief of Staff of the Army prior to reaching the Secretary of the Army for his approval.

Army Regulations on this subject are more specific than those of the other services.¹ They require that when a major management problem is apparent but precise definition of the problem difficult, a pilot study should be made to define and isolate the problem. Further, when a management problem is lengthy it should be phased out with satisfactory completion of one phase-- a requirement to starting the other phases. There are other minor differences; they, like the Navy, retain the requirement for an evaluation of contractor services to be forwarded within three months of the contract's completion, in this case through the Comptroller of the Army. However, there exists one important difference between the Army and the Navy system. Whereas the centralized Navy Management Office requires a copy of all completed consultant reports the Army Comptroller merely requires that the location of the consultant's reports be made known to him for review, if it should be desired.²

¹Ibid., p. 3.

²Ibid., p. 5.

This is a less centralized arrangement and does not afford as great an opportunity for one agency to achieve complete familiarity with the full scope of the various consultants' activities or quality of their work as does the Navy setup.

The Comptroller of the Army has prepared an excellent check-off list for those contemplating use of consultants. The key points of his guide are included below:¹

- (1) Is an outside study of the problem necessary?
- (2) Has the sponsoring agency determined that it lacks adequate staff to do the work?
- (3) Is it possible for a contractor to understand the problem and all its details without undue delay?
- (4) Has the sponsoring agency made a comparison of Army and Contractor costs?
- (5) Has the sponsor considered using per diem consultants?
- (6) Has the sponsor clearly defined the problem?
- (7) Has the sponsor clearly limited the project?
- (8) Has the sponsor analyzed similar projects?
- (9) Has the sponsor considered a pilot project?
- (10) Do the specifications provide for a phased work schedule?
- (11) What support, in addition to the contract price, is the sponsoring agency to provide?
- (12) Can the sponsor supply all data the contractor would need?

¹United States, Department of the Army, Comptroller of the Army "Guide for Preparation, Use and Evaluation of Management Engineering Contracts", October, 1954, published by the Office of the Comptroller of the Army, pp. 1-23.

- (13) When necessary, do the specifications limit the recommendations to use of present resources?
- (14) Is the contractor to assist in implementing his recommendations?
- (15) Will the project yield an adequate return on the investment?
- (16) Has the sponsor provided for funds and adjusted his annual programs to provide for the project?
- (17) Does the proposal adequately cover such points as the following-- (and then lists ten additional points for consideration).
- (18) Does the proposal provide for close and continuous liaison between the contractor and the sponsoring agency?
- (19) When a sole source contract is to be requested can it be fully justified?
- (20) Does the Contractor's proposal indicate ability to achieve the desired results?
- (21) How effective have the bidder's recommendations and ideas been on other contracts?
- (22) If a proposed contract is for an industrial fund, production standards or related techniques, how effective has the bidder's performance been on similar projects?
- (23) If a proposed contract is for preparing manuals, regulations and guidance documents, how effective has the bidder's performance been on similar projects?
- (24) Is the bidder a specialist in any particular field?
- (25) Have the competence and security clearances of the bidder's personnel been checked?
- (26) Has the sponsor selected a well qualified project officer?
- (27) Have the sponsor and the contractor made adequate plans for helping the contractor become familiar with the problem?
- (28) Has the agency enlisted the sympathetic participation of its personnel?
- (29) Has the sponsor arranged for frequent evaluation of the contractor's progress?

This is by far the most complete, thorough and exhaustive list of standards seen either in government or business as preparation for the employment of a management consultant. The thought may well be here that there is so much work involved in preparing the request for outside assistance that every effort will undoubtedly be exerted by the sponsor to do the proposed project himself if at all possible, and only those projects definitely outside their abilities will ever result in a request for outside consulting help.

CHAPTER VII

SOME USES OF CONSULTANTS BY GOVERNMENT

Our discussion of the use of consultants by government will cover the specific type of management consultants familiarly known in the old accepted sense as time and study methods men, and will branch out as well into the much broader usages found today in government.

There are two forms of usages of consultants by government which differ from their method of employment by American business. Appointed commissions, although not in themselves management consultants, often perform their functions. They employ in their membership many whose sole occupation is that of being a management consultant. Organization of research projects also entails comparable usages of such consultant personnel whether they are used on a standby basis or as an integral part of the organization of a formal project.

Where consultants are, in fact, performing the same functions as their civilian counterparts they will be considered as providing these services of management consultants to government even though their operations are supplemental to the work of commissions and projects.

Employment of consulting contracts by the military departments for the conduct of research projects is an outgrowth of practices initiated by the Office of Scientific Research and Development. It is regarded as an effective method of utilizing scarce facilities and limited talent and is employed widely by both Army, Navy and Air Force. In 1951-1952 for example, the three services maintained fifteen special research centers located in universities

and industrial centers at an estimated cost of \$56,210,000 for that annual period.¹

Recently the Commission on Organization of the Executive Branch of the Government, familiarly known as the Hoover Commission, completed its report to the Congress on the subject of Budgeting and Accounting. The task force members who surveyed the Budgeting and Accounting aspect of this mammoth problem consisted of six members, two staff directors and three management consultants.²

Although they too are not pure Management Consultants in the popular concept of the term, this body and others of similar nature are in fact performing the functions and using the methods of typical management consultants.

Another project which differs in the accepted sense is one presently being undertaken for the Navy Department in the field of "Logistics Research".³ This particular research group was established at the George Washington University and consists of a small group of associates from the fields of mathematics, statistics and economics "supplemented by a few consultants with pertinent special competencies and interests".

Admiral McShane feels that there are two advantages which an approach

¹Memorandum of the Assistant Secretary of Defense of 31 August 1954, Subject: "Bureau of the Budget Study of DOD Management and Operation Contracts", p. 4.

²The Hoover Commission, "Budget and Accounting", A Report to the Congress, June 1955, pp. v-vi.

³VADM Ralph E. McShane, "Logistics Research for the Navy", Research Reviews, Office of Naval Research, November 1955, p. 25.

to a typical management problem of this type can provide.¹ "First, people who have types of knowledge which are not commonly found in working logisticians will work on the problem, and second, they have time to focus attention on a specific problem with minimum diversion from that task". The Chief of Naval Operations felt this project could best be carried out as a separate endeavor rather than an administrative action of a purely intra-Navy nature.

The value of research acquired by government by contract with private researchers is illustrated by another example.² In 1935 the Navy asked the Arthur D. Little Company to devise a means of making potable water in large quantities from sea water with equipment scaled to submarine use. From this contract evolved the Kleinschmidt still and the installation of a hundred million dollars worth of this equipment in the Navy's submarines of World War II.

Another user of Management Consultants is the Navy's Bureau of Supplies and Accounts. Mr. R. C. Moot, in an oral presentation at the George Washington University, recently called attention to his bureau's use of the Methods Engineering Council of Pittsburgh in order to provide a new measuring stick for specific performance.³ In the past, the historical elements of time periods were used as a base for the determination of proper work performance,

¹Ibid., p. 29.

²Herbert Solow, "Science for Sale--at a Profit", Fortune, March 1955, pp. 105-106.

³Mr. Robert C. Moot, Comptroller, Navy Department Bureau of Supplies and Accounts, speech delivered at the George Washington University, 6 January 1956.

however, the present analysis is designed to establish a new standard which is scientifically engineered to determine how good the base period really was and then to establish what it really should have been. This evaluation is presently being conducted at Bayonne, New Jersey.

Other studies are currently being made which are all pointed toward increased efficiency and performance by the Department of the Navy. Today the Navy Management Office has approved surveys designed to improve other performance standards; to improve maintenance standards; to develop a catalog of common type Marine and Army items of supply with the purpose of establishing uniform procurement procedures and conducting a study of facilities for future requirements for the Bureau of Aeronautics.¹

Studies recently completed for the Navy involve one on simplification of reports and report forms; another for the Bureau of Docks covering transportation maintenance, and another for the Bureau of Aeronautics whose goal was the determination of the cheapest method of training pilots. (The question here was whether the government or private contractor could more cheaply train the Navy's aviators.)

A further idea of the scope of consultant employment by the Navy Department is derived from the record of twenty-six management contracts approved for execution since January, 1953.² The average value of contracts let is approximately \$60,000, with a low value of \$1,000 ranging upward to over

¹Interview with Mr. George Kerr, Navy Management Office, 8 February 1956.

²Ibid.

\$200,000.00. The latter is a Navy-wide survey conducted of all supply activities for the Bureau of Supplies and Accounts.

Congress is not unmindful of its interests in this, as with all phases of government, and keeps a check on the overall consultant employment situation through both the Appropriations Committee and the Committee on Organization of the House. This is accomplished through a variety of applicable questions submitted for answer to the Navy Department covering the entire scope of uses of consultants and their costs.

Modern government is developing as many intricacies as are found in the entire business world of today. Another subject of recent research conducted for the Defense Department in an attempt to smooth its administrative efforts is one just completed by McCormick, Cresap & Paget. Operating out of Cleveland, they were commissioned by Mr. Gray, the Assistant Secretary of Defense for International Security Affairs. The objective was to organize the Secretary's office so as to help him more adequately survey the functions and responsibilities of his job. Let as a 60-day contract at a cost of \$18,000, McCormick, Cresap & Paget submitted a one-copy report to the interested Secretary. Appropriate recommendations were made about such matters as affected the National Security Council, the Mutual Defense Aid Program and foreign Military Affairs, (the functioning of which all involved the Assistant Secretary's job.)

This brings into focus what seems to be a pertinent problem for consultants employed not only on a contract basis, but those whose activities cover the much more broad field of commissions and research projects.

The fact is that the only way to get the best results is to have the best people. The fact is that the only way to get the best results is to have the best people.

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We are all fully aware of the activities of the Hoover Commission which did a tremendous job on its two million dollar budget.¹ It is, however, a major problem of considerable importance to assure ourselves that any consultant is QUALIFIED IN THE FIELD IN WHICH HE IS MAKING HIS SURVEY. The intricacies of defense are not learned in a day. Nor are the workings of any office or Bureau in government. Many months are needed in many fields even for proper orientation. It behooves us, therefore, to look with jaundiced eye upon any report whose scope exceeds the ken of the consultant or whose conclusions seem to be made in a figurative twinkling of an eye.

In April 1953, in implementation of the President's proposals for organizing the Department of Defense, a committee was formed by the Secretary of the Army.² It was composed of four civilians from top industrial management, one officer and a staff of four members of the consulting firm of McKinsey and Company, working in conjunction with assigned Army officers. The procedures followed and their approach is typical of many of the committee-consultant approaches applied in government today. This one resulted in the committee conducting 28 days of hearings, questioning 129 witnesses and examining reams of material assembled by McKinsey and Company's staff.

The 1949 Reorganization of the National Military Establishment grew out of the work of the Hoover Commission. The magnitude of its work can be judged

¹Herbert Hoover, "The Reform of Government", Fortune, May 1949, p. 74.

²Paul L. Davies, "A Business Look at the Army", Harvard Business Review, July-August, 1954, p. 55.

from its recommendations, i.e., (1) that a Department of Defense replace the N. M. E.; (2) that the Secretary of Defense have all administrative authority centered in him; (3) that a Deputy Secretary of Defense and three assistants be established, and finally, (4) the creation of the position of Chairman of the Joint Chiefs of Staff.¹

Another committee with the same basic structure and one which demonstrates the complex workings of consultant activities in government is the President's Advisory Committee on Fiscal Organization. This committee, known as the Rockefeller Committee, was duly appointed by the Secretary of Defense. Its recommendations plumped for four structural changes in the Department of Defense.¹ These became effective in June of 1953 and provided for (1) tighter control over the previously autonomous departments of the Army, Navy and Air Force, (2) an increase in the number of Assistant Secretaries from three to nine, (3) a single chain of operational command, and (4) gave more power to the Chairman of the Joint Chiefs of Staff.

As a result of other recommendations by this committee, the Office of Research and Development was created to supplant the old Research and Development Board. Working for them now is the Office of Applications Engineering.² In the words of its boss, Assistant Secretary of Defense, Mr. Frank Newbury, he "is appalled by past mistakes in management" which he turned up. Mr. Newbury thinks with proper use of all techniques and intensive effort by all

¹Ibid., pp. 33-37.

²Duncan Norton-Taylor, "The Wilson Pentagon", Fortune, December 1954, p. 222.

hands, including the two hundred outside consultants which they have retained on a standby basis that "the system may be purified in about five years".

Recent examples of dramatically successful management consulting work include the survey and study of the Veteran's Administration of the federal government which cost approximately \$600,000.00 in fees and resulted in annual savings to the government of approximately 25 million dollars.¹

The final and a major example of the use of consultants by government is the story of "Project Rand".² Rand is a creation of the United States Air Force but it is not a governmental agency. "It is an independent, non-profit organization similar to a foundation but without an exact precedent and it has numerous consultants and subcontractors in universities and industries". Its governing conception is the preservation of national wealth and resources. Its makeup consists of 433 staff members and 102 consultants. Of these 102, 31 are in the field of economics, 18 in mathematics, 16 are physicists, 8 are political scientists, 7 are in administrative services, 4 are sociologists and 3 are social scientists.³

Rand's scope encompasses all conceivable future Air Force weapons and conveyances. They are involved, in a sense, with the familiar business problem of providing new facilities and making replacements and other changes for an uncertain future.

¹ Marshall Granger, op. cit., p. 508.

² John McDonald, "The War of Wits", Fortune, 1951, pp. 99-100.

³ Ibid.

An apparent difficulty in comparing effectiveness between the work done for management by consultants in business and those employed for government is the familiar lack of a profit and loss statement. It is much simpler to evaluate performance when it is in terms of dollar profits. The Defense Department, however, has, through its policies enumerated in the preceeding chapter, done much to ascertain that benefits derived for government from the employment of outside management consultants will prove far reaching. The ground for improvement is vast. The goal is increased economy and efficiency in the defense department in particular and the government in general.

CHAPTER VIII

CONCLUSIONS

Reputable management consultants of today are still plagued by the charlatans of the days of Taylor and the Gilbreths. They are, however, taking steps to cleanse their own ranks and tighten their own standards of performance through the efforts of The Association of Management Engineers.

The performance results of the efforts of Management Consultants are sometimes measured in terms of specific dollars saved and business efficiency achieved. Other times the disgruntled and dissatisfied users of this management tool decry the consultant's efforts.

An impartial measure of the acceptance of the function and value of consultants is their continued use by American Management and the continued growth of their billings. Those who find consultants effective are those who continue to use them. What better measure of value than the corporation which is willing to spend hundreds of thousands of dollars to acquire improved performance through their use and reuse.

The application to which consultants are put by government is somewhat more obtuse than the methods of employment found in the business world. Often their efforts are included in special projects such as "Project Rand" which makes direct determination of their manifold activities more difficult. Other times the efforts of management consultants are subordinated in the work of various governmental commissions such as the Hoover and Rockefeller Commissions. Suffice it to say therefore, that there is a parallel in the use

of their efforts by both government and business. Sometimes their efforts are directly measureable as we have noted in the body of this paper. At other times the thread which binds their similarity is more nebulous. It is obvious to all, however, that their scope is broad; their opportunity for performances limitless; the chance to perform great works limited only by their own abilities.

To recognize their background, scope and the altitude of their operations is to start on the road to more effective employment of this extremely valuable management tool.

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